

EXTENSIONS OF REMARKS

IMF TRANSFORMATION

HON. NEWT GINGRICH

OF GEORGIA

IN THE HOUSE OF REPRESENTATIVES

Tuesday, October 13, 1998

Mr. GINGRICH. Mr. Speaker, I want to recommend to my colleagues the following editorial entitled *Perils of Globalism* by former Secretary of State Henry Kissinger.

Secretary Kissinger begins to tackle an issue that we, in Congress, have been debating for several months. In Secretary Kissinger's words, he eloquently states what many members believe, that the "IMF must be transformed. It should be returned to its original purpose as a provider of expert advice and judgement, supplemented by short-term liquidity support. When the IMF focuses on multi billion-dollar loans, it plays a poker game it cannot possibly win; the 'house', in this case, the market, simply has too much money. Congress should use the need for IMF replenishment to impose such changes."

Without proper reforms, the situation of insolvency within this organization will remain, and the backlash of improper management of funds, especially those of American taxpayers, will be felt across the globe.

I strongly urge all of my colleagues to take time and read *Perils of Globalism* to gain a better understanding of problems the IMF is facing.

PERILS OF GLOBALISM

What began 15 months ago as a currency crisis in Thailand and then spread across Asia now threatens the industrialized world.

No government and virtually no economist predicted the crisis, understood its extent or anticipated its staying power. A series of IMF rescue packages has not arrested its spread and threatens the political institutions implementing them. In Indonesia a regime tainted by cronyism has been overthrown. But in Brazil, the crisis threatens one of the most reform-minded governments in decades.

What was treated at first as a temporary imbalance is becoming a crisis of the world's financial system. In the past 20 years, two Mexican crises, in 1982 and 1994, spread to most of Latin America; the Asian crisis of 1997 has already infected Eastern Europe, South Africa and Latin America. Each crisis has been more extensive and has spread more widely than its predecessor.

Free-market capitalism remains the most effective instrument for economic growth and for raising the standard of living of most people. But just as the reckless laissez-faire capitalism of the 19th century spawned Marxism, so the indiscriminate globalism of the 1990s may generate a worldwide assault on the concept of free financial markets. Globalism views the world as one market in which the most efficient and competitive prosper. It accepts—and even welcomes—that the free market will relentlessly sift the efficient from the inefficient, even at the cost of periodic economic and social dislocation.

But the extreme version of globalism neglects the mismatch between the world's po-

litical and economic organizations. Unlike economics, politics divides the world into national units. And while political leaders may accept a certain degree of suffering for the sake of stabilizing their economies, they cannot survive as advocates of near-permanent austerity on the basis of directives imposed from abroad. The temptation to seek to reverse—or at least to buffer—austerity by political means becomes overwhelming. Protectionism may prove ineffective in the long term, but for better or worse, political leaders respond to more short-term cycles.

Even well-established free-market democracies do not accept limitless suffering in the name of the market, and have taken measures to provide a social safety net and curb market excesses by regulation. The international financial system does not as yet have these firebreaks. Nor is there much of a recognition that it needs them.

Ours is the first experiencing a genuinely Crony capitalism, corruption and inadequate supervision of banks were serious shortcomings. But they did not cause the immediate crisis; they were a cost of doing business, not a barrier to it. Until little more than a year ago, Asia was the fastest growing region in the world, its progress underpinned by high savings rates, a disciplined work ethic and responsible fiscal behavior.

What triggered the crisis were factors largely out of national or regional control. The various countries had exchange rates linked to the U.S. dollar. When China devalued in 1994, the dollar appreciated significantly starting in 1995, and the yen fell sharply. Southeast Asian exports became less competitive and export earnings fell. At the same time, the dollar pegs created unprecedented opportunities for speculation. It was possible to borrow dollars in New York and lend them locally for at least twice the cost of borrowing—at no apparent currency risk. The borrowers invested in real estate and excess plant capacity, creating a dangerous bubble. Local currency became overvalued and local currency holders converted into dollars, inviting speculative raids—all without significant warnings from international financial institutions.

The U.S. Treasury, convinced that the matter could be dealt with regionally and gun-shy after congressional reaction to the bailout of Mexico, refused to participate in the first round of the crisis. But when the crisis spread to Indonesia, the largest country of Southeast Asia, the threat to the global system could no longer be ignored.

At U.S. urging, the IMF intervened in both situations with its standard remedies, leading to massive austerity. Thailand's democratic institutions have so far proved relatively resilient. But for how long can it sustain interest rates of more than 40 percent, a negative growth of 8 percent and a 42 percent devaluation of its currency?

In Indonesia—a rich country with vast resources and an economy that was praised by the World Bank in July 1997 for its efficient management—the IMF, advised by an administration afraid of being accused of having political ties to leading Indonesian financial institutions, decided to make its assistance conditional on remedying virtually every ill from which the society suffered. It demanded the closing of 15 banks, the ending of monopolies on food and heating oil, and the end of subsidies.

But when 15 banks are closed in the middle of a crisis, a run on other banks is inevitable. The ending of subsidies raised food and fuel prices, causing riots aimed at the Chinese minority that controls much of the economy. As a result, as much as \$60 billion of Chinese money fled Indonesia, or more than the IMF could possibly provide. A currency crisis had been turned into an economic disaster.

For a few months, a special Treasury representative worked with the government and the IMF to ease the pressures. But by April the IMF was back at the old stand. This time the explosion swept away the Suharto regime. A currency crisis, having been transmuted into an economic crisis, has become a crisis of political institutions. Any real economic reform stands suspended. The shortcomings of Suharto were real enough, but to try to deal with them concurrently with the currency crisis has produced a political vacuum in the most populous Islamic nation in the world.

Ours is the first period experiencing a genuinely global economic system. Markets in different parts of the world interact continuously. Modern communications enable them to respond instantaneously. Sophisticated credit instruments provide unprecedented liquidity. Hedge funds, the trading department of international banks and institutional investors possess the reach, power and resources to profit from market swings in either direction, and even to bring them about. It is market stability that they find uncongenial.

Broadly speaking, direct foreign investment benefits from the well-being of the societies in which it operates; it runs the risks and is entitled to the benefits of the host country. By contrast, modern speculative capital benefits from exploiting emerging trends before the general public does. It drives upswings into bubbles and down cycles into crises, and in a time frame that cannot be significantly affected by the kind of macroeconomic remedies being urged on the political leaders.

For example, when Asian creditworthiness began to fall, financial institutions and fund managers holding the debt were tempted to sell Asian currencies short, thereby accelerating devaluation and compounding the difficulty of repaying debt. Speculators were acting rationally, but the result was a deeper, more vicious and more intractable crisis.

To maintain their overall performance, speculators, as losses mounted in Asia, were driven to cash in their holdings in Latin America and thereby spread the crisis. The capacity of smaller countries to deal with these massive capital flows is not equal to the temptations offered by the system. Regulators in the United States, Europe and Japan have not succeeded in dampening the increased volatility of the market. And small and medium-sized countries are defenseless in the face of it.

The speculators will argue that they are only exploiting weaknesses in the market, not causing them. My concern is that they have a tendency to turn a weakness into a disaster. If Brazil is driven into deep recession, countries such as Argentina and Mexico, heretofore committed to free-market institutions, may be overwhelmed.

The crisis in Brazil is a case in point. Despite a reform-minded and, on the whole, efficient government, Brazil faces a crisis

• This "bullet" symbol identifies statements or insertions which are not spoken by a Member of the Senate on the floor.

Matter set in this typeface indicates words inserted or appended, rather than spoken, by a Member of the House on the floor.

partly because, as one of the largest and most liquid emerging markets, it is one of the easiest from which to withdraw. If these trends are not arrested, global flows of capital will be impeded by a plethora of national or regional regulations, a process that has already begun.

The International Monetary Fund, the principal international institution for dealing with the crisis, too often compounds the political instability. Forced by the current crisis into assuming functions for which it never was designed, the IMF has utterly failed to grasp the political impact of its action. In the name of free-market orthodoxy, it usually attempts—in an almost academic manner—to remove all at once every weakness in the economic system of the afflicted country, regardless of whether these caused the crisis or not. In the process, it too often weakens the political structure and with it the precondition of meaningful reform. Like a doctor who has only one pill for every conceivable illness, its nearly invariable remedies mandate austerity, high interest rates to prevent capital outflows and major devaluations to discourage imports and encourage exports.

The inevitable result is a dramatic drop in the standard of living, exploding unemployment and growing hardship, weakening the political institutions necessary to carry out the IMF program.

The situation in Southeast Asia is a case in point.

All this might make sense if the IMF programs brought demonstrable relief. But in every country where the IMF has operated, successive programs have lowered the forecast of the growth rate, which, in Indonesia, is now a negative 10 percent, in Thailand a negative 5 percent and in South Korea an optimistic positive one percent. It could be argued that without the IMF program, conditions would be worse, but his is no consolation to governments and institutions facing massive discontent.

The inability of the IMF to operate where politics and economics intersect is shown by its experience in Russia. In Indonesia the IMF contributed to the destruction of the political framework by excessive emphasis on economics; in Russia it accelerated the collapse of the economy by overemphasizing politics. The IMF is, quite simply, not equipped for the task it has assumed.

The immediate challenge is to overcome the crisis in Brazil and preserve the free-market economics and democracy in Latin America. A firm and unambiguous commitment by the industrial democracies, led by the United States, is essential to buttress the necessary Brazilian reform program.

An expanding American economy is the key to restoration of global growth. Whether this is achieved by a cut in interest rates or a major tax cut, a strong commitment to reinvigorated growth is essential.

Above all, the institutions that deal with international financial crises are in need of reform. A new management to replace that of Bretton Woods is essential. It must find a way to distinguish between long-term and speculative capital, and to cushion the global system from the excesses of the latter.

The IMF must be transformed. It should be returned to its original purpose as a provider of expert advice and judgment, supplemented by short term liquidity support. When the IMF focuses on multibillion-dollar loans, it plays a poker game it cannot possibly win; the "house," in this case the market, simply has too much money. Congress should use the need for IMF replenishment to impose such changes.

Further, the central banks and regulators of the industrial democracies need to turn their attention to the international securi-

ties markets, just as they did to international banking after the debt crisis of the 1980s. Regulatory systems should be strengthened and harmonized; the risks that investors are taking should be made more transparent.

Finally, the private sector must learn to relate itself to the political necessities of host countries. I am disturbed by the tendency to treat the Asian economic crisis as another opportunity to acquire control of Asian companies' assets cheaply and to reconstitute them on the American model. This is courting a long-term disaster. Every effort should be made to work with local partners and to turn acquisitions into genuinely cooperative enterprises.

HONORING HOWARD ST. JOHN

HON. MAURICE D. HINCHEY

OF NEW YORK

IN THE HOUSE OF REPRESENTATIVES

Tuesday, October 13, 1998

Mr. HINCHEY. Mr. Speaker, before we adjourn for the year, I wanted to take a moment to honor Howard St. John, who is stepping down from the chairmanship of Ulster Savings Bank after a long and very rewarding career there. Howard has had, in a sense, many careers—as a District Attorney, President and member of many professional and charitable boards and associations, and as a very successful local businessman. Through his many endeavors and successes he has never lost his warmth and generosity or his personal touch with regular people. He has contributed to the health and well being of numerous families throughout the Hudson Valley, helping them to realize their dreams in many different ways. I join my friends back home in saluting him upon his retirement from Ulster Savings Bank and wish him the very best in what I hope will be a long and fruitful retirement.

CHARITABLE GIVING INCENTIVE
ACT, HR 3029

HON. JENNIFER DUNN

OF WASHINGTON

IN THE HOUSE OF REPRESENTATIVES

Tuesday, October 13, 1998

Ms. DUNN. Mr. Speaker, among the provisions included in the tax package we passed yesterday is a provision of great importance to the charitable giving community: an extension of the enhanced deduction for contributions of publicly-traded stock to private foundations. Although extending this deduction benefits many is a useful tool for providing funds for charitable purposes, this deduction alone is not enough.

In this era of ever-tightening fiscal constraints, we have asked our communities to do more and more for those less fortunate. Charitable organizations in our communities have become an integral part of the safety net for the poor and homeless and significant sources of assistance for education, health care, child development and the arts in every community.

To meet the increasing deficit in unmet social needs, the government cannot merely expect the private sector to fill the gap, but must provide the leadership for the use of private sector resources through changes in the tax code. One source of untapped resources for

charitable purposes is the contribution of closely-held corporate stock. Under current law, the tax cost of contributing closely-held stock to a charity or foundation is prohibitive, and it discourages families and owners from disposing of their businesses in this manner.

Earlier this year, I was joined by Representatives Furse, Nethercutt, Hooley, Paul and Smith of Oregon in introducing legislation that would also provide an incentive to business owners to use their corporate wealth for charitable causes. H.R. 3029, the Charitable Giving Incentive Act of 1998, would permit a closely-held business to transfer its assets into a 501(c)(3) charitable organization without paying the 35 percent corporate level tax. Thus, the recipient charity would receive the full benefit of the gift. Identical legislation has also been introduced in the Senate by Senators Smith of Oregon, Feinstein, Wyden, Baucus and Gorton.

In addition to this bipartisan Congressional support, we have garnered support from the charitable community. Below is a letter signed by several organizations that represent thousands of charitable institutions across the country, calling for enactment of this legislation. It is my intention to reintroduce this legislation in the 106th Congress and I look forward to working with the Ways and Means Committee Chairman Archer, Ranking Member Rangel and my House colleagues to legislate changes that will make it easier for the citizens of this country to give to charitable causes.

October 9, 1998

Representative BILL ARCHER,
Chairman, House Committee on Ways and Means,
House of Representatives, Washington, DC.

The undersigned organizations are all tax exempt 501(c)(3) charitable entities, or representatives thereof, whose efforts are dependent upon the charitable giving of concerned individuals. With the needs of our communities growing, and in some cases the financial support from government agencies diminishing, many endeavors are increasingly reliant upon a core group of concerned, consistent, and active givers. It is important to encourage and reward the selfless sharing by this group and to expand its membership.

Accordingly, we support legislation that has been introduced in this Congress to provide tax incentives for the donation of significant amounts of closely-held stock. H.R. 3029 and S. 1412, the Charitable Giving Incentive Act, would permit the tax-free liquidation of a closely-held corporation into a charity if at least 80 percent of the stock of the corporation were donated to a 501(c)(3) organization upon the death of a donor. Thus, the 35 percent corporate tax that would otherwise be paid is not imposed: all of the value of the contribution would go to charitable purposes. This is the same tax result as would occur if the business had been held in non-corporate form.

The current disincentive for substantial contributions of closely-held stock should be corrected at the earliest opportunity. We believe such a change would encourage additional transfers to charity because the donors will see more of the benefit going to the charity and not to taxes. We hope that appropriate tax incentives will encourage more families to devote significant portions of their businesses, and their wealth, to charitable purposes.

As a key member of Congress, we urge your active support for this effort to expand